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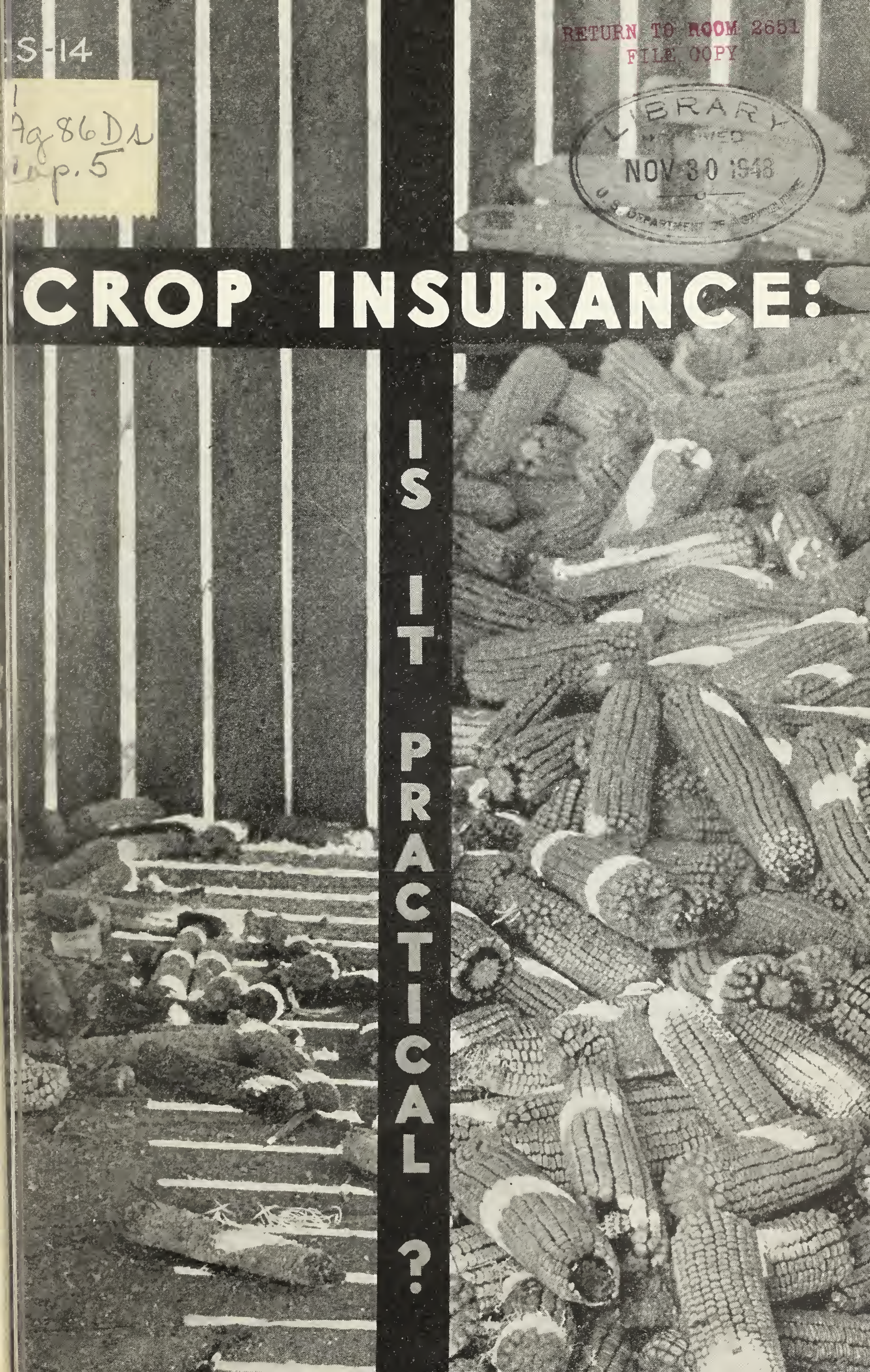
CROP INSURANCE: IS IT PRACTICAL?



This pamphlet has been especially prepared for use by discussion groups. Its purpose is to present, in brief form, some of the main considerations which need to be taken into account in setting up a system of crop insurance, and some current attitudes as to the desirability of insurance measures. No statement contained herein should be taken as an official expression by the Department of Agriculture.

The following questions are discussed:

Why Shouldn't Farmers Have Crop Insurance?

What Risks Did Early Crop Insurance Plans Cover?

Can Some of These Risks Be Cut Out?

Should Crop Insurance Cover Yields Only?

How Can Premiums Be Figured?

How Much of a Crop Yield Should Be Insured?

Would Crop Insurance Encourage One-Crop Farming?

Aren't Benefit Payments and Crop Loans Enough?

Is An Ever-Normal Granary Desirable?

Is Surplus Control Necessary With An Ever-Normal Granary?

Copies of this pamphlet may be obtained free upon request addressed to the Extension Service, U. S. Department of Agriculture, Washington, D. C. Other pamphlets have been similarly prepared and are similarly obtainable.

SUBJECT-MATTER PAMPHLETS FOR THE 1936–37 SEASON

DS–1 What Should Be the Farmers' Share in the National Income?
DS–2 How Do Farm People Live in Comparison with City People?
DS–3 Should Farm Ownership Be a Goal of Agricultural Policy?
DS–4 Exports and Imports—How Do They Affect the Farmer?
DS–5 Is Increased Efficiency in Farming Always a Good Thing?
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SUBJECT-MATTER PAMPHLETS FOR THE 1937–38 SEASON

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PAMPHLETS ON THE DISCUSSION METHOD

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United States Department of Agriculture

The Extension Service and the
Agricultural Adjustment Administration Cooperating

(Illustrations by Works Progress Administration, Farm Security Administration, Bureau of Agricultural Economics)

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CROP INSURANCE: IS IT PRACTICAL?

If you look at the farm products on the shelves of a grocery store, or in a wholesale house, the chances are they'll be insured. If you look at the farm products in a processing plant, or a textile mill, or in a chemical factory, the chances are they'll be insured. If you look at the farm products in an elevator or a gin, or even in a freight car or a truck, the chances are they'll be insured. But if you look at the farm products on a farm, the chances are they'll not be insured.

WHY SHOULDN'T FARMERS HAVE CROP INSURANCE?

As soon as this question is raised, someone is sure to reply, "Farmers don't have crop insurance because crop insurance isn't practical. It isn't that farmers don't want it—farmers have been wanting it for years. In 1923 there was so much pressure for crop insurance that Congress held thorough hearings on the subject. And in 1928 Congress asked the Secretary of Agriculture to make a report on the possibilities of something of the sort.

"And these efforts to see if the Government couldn't do something about it weren't the first efforts that were made. A number of private insurance companies tried writing crop insurance but those that tried insuring field crops got their fingers burnt so badly that they decided to keep out of it. The story of their mistakes is told in the 1923 Congressional hearings. The experience of the private companies shows that crop insurance just isn't practical. It's too risky. There are too many variable factors for it to be workable."

WHAT RISKS DID EARLY CROP INSURANCE PLANS COVER?

"Haven't you just made a point that is worth following up?" someone else is likely to come into the conversation.

"Let's make a list of the various risks the companies took that tried the first crop insurance:

(1) In most of the attempts at crop insurance the companies insured the income per acre. In other words, what they were really doing was insuring not only the yield but the price which the crop brought when it was marketed. That was where some of the companies took their biggest beating. In 1920 some of them had written insurance on spring wheat up to $10 an acre; when prices broke the way they did in the fall of that year the company owed money even to people who had made a good crop because of the price the crop sold for.

(2) They insured over limited areas. Some of the companies operated over a very limited area, a State, for instance. Others operated on a larger scale but still didn't cover a whole crop—for example, they insured spring wheat but not winter wheat. In both cases, the risks were increased by the limitations of the insurance; our records show that what turns out to be a bad year for one State may be a good year for another, and that when the spring wheat crop is poor, the winter wheat crop is often better, or the other way around.

(3) They insured throughout the growing season. Now when a crop is first planted, it's anybody's guess as to how it will turn out; an insurance plan may either win or lose on the transaction. But when the season is well along, one can be much more sure about how the crop is going to turn out. If wheat makes too fast a growth early in the season, the straw is weak and it doesn't take much of a windstorm to blow it over. Or if there's a drought, it's easy enough to see the damage. Now it's exactly at such times that people want insurance, and if they can get it after the crop has been damaged, the insurance plan is bound to have to stand some pretty heavy losses when the time comes to pay up.

(4) Some of them suffered severe losses from widespread drought or other disaster the first year of operation. They did not have time to accumulate adequate reserves out of crop insurance premiums before heavy losses occurred.

Any company that has to meet very heavy withdrawals out of its first year's premiums is bound to go under.

"Now that list gives us a pretty good picture of what the early efforts tried to do."

"And shows us clearly why crop insurance won't work," interposes the first speaker.

CAN SOME OF THESE RISKS BE CUT OUT?

"Does it, now?" a third voice is heard. "Or does it sort out for us the various elements of risk and show us how to do away with some of them?

"Take the matter of insuring all through the season. That doesn't have to be a part of the insurance plan. No company will write fire insurance on your house after it's started to burn. Why couldn't insurance be limited to a certain period at planting time, during which people would have to make up their minds whether they wanted insurance or not?

"Then take the matter of coverage—if a plan were nation-wide to the extent that the crop was grown on a nation-wide basis, wouldn't that pool a lot of risks? Certainly, pooling helps other types of insurance.

SHOULD CROP INSURANCE COVER YIELDS ONLY?

"But the biggest risk seems to be insuring both yields and prices. Would it be possible to insure yields only and let prices take care of themselves? It's bad enough taking a chance on what wind and sun and rain and pests and blights may do to a man's crop without taking another chance on what the total effect of all of these things all over the world may do to the price after the crop gets to market.

"Couldn't the insurance scheme be taken out of the realm of money and price altogether? Couldn't premiums be paid in kind and reimbursement for losses paid in kind? Then when a farmer paid his premium it would be just as though he planted a certain amount more seed to the acre in the fields he actually sowed, only he'd be sure of getting some back from the amount he paid into the pool, if what he put into the ground disappointed him."

"Hold on a minute," a new voice breaks in. "Don't let your imagination run away with you. Look at what you're saying. Suppose you had an insurance that covered the whole area where a crop is grown. That would mean all 48 States for corn, 47 for wheat, 39 for tobacco, 19 for cotton. That would mean a huge organization. Crop losses would have to be mighty carefully checked if some people weren't to sponge on the insurance. And a huge organization would mean a huge overhead.

"Now suppose the plan included your idea of payments in kind, what else would you have to have? Storage facilities for all the premium payments. Can't you see a string of trucks and wagons coming in one direction bringing in the premiums and another string of trucks and wagons going in the opposite direction paying up losses? I think your whole scheme is as cluttered up as the highways would be."

"Hold on a minute, yourself," retorts the previous speaker. "That isn't the way the thing would work. As it is now, every farmer takes his crop to the elevator, or the gin, or wherever he's going to sell it. Well, under the insurance plan, the only extra things he'd have to do would be to get a receipt from the warehouseman for an amount equal to his premium, and turn that in to the insurance agency. Not a very burdensome transaction, is it? And suppose his crop fails. The insurance agency can give him an order on the warehouse where the pooled grain is. If his crop is so bad that he needs the grain due from his insurance for feed, he can go get it just as he would if he were buying from a supply house. If he wants to sell it, there it is right where it is usually sold.

"Then as to the matter of overhead. There's bound to be some overhead in any system. But haven't the farmers of the country, in the course of the past few years, built up a system of agencies under the A. A. A. programs that might be readily used for crop insurance? The county committees know their neighborhoods, and they're located right where the crops are."

"Well, take another thing I was just coming to when you interrupted," the objector resumes his remarks. "You

said if you pooled the risks over a wide area you'd bolster the scheme up. Well, maybe that might be all right for the scheme, but what about the people who pay the premiums? The risks aren't the same over the whole country. Take wheat, for example. In some States the wheat crop doesn't fail more than about once in ten years. In other States, particularly in the Western Great Plains area, farmers are lucky if they get two crops out of five. If by pooling those risks you mean charging the same premiums, the farmers in the areas where the climate is fairly reliable will pay for the droughts in the 'dust bowl,' and pay plenty, too. Is that what you mean?"

HOW CAN PREMIUMS BE FIGURED?

"No, it isn't," the backer of the scheme replies. "I think it's clear that in any acceptable plan premiums would have to vary according to risk. The differences you mention aren't confined to differences among the chief areas of the country. Within a single State risks may vary enormously, even within a single county. Look at the difference between dry farming and irrigated areas in some of our Great Plains States. But I think we have good enough records, at least for some crops, to work those risks out on something approaching an actuarial basis. We have State and county records for some years back, and under the A. A. A. programs we have worked up records for thousands of individual farms that go back to 1930."

"But which would you use to figure your premiums?" inquires a member of the group. "I don't think the county records would be worth anything because risks vary so from farm to farm. On the other hand, there are quite a few farms where we haven't very good individual records."

"What about averaging the two, especially until we can get better individual records?"

"Then the better-than-average farmer has his premium raised by the rate of the poorer-than-average farmer in his county, doesn't he?"

HOW MUCH OF A CROP YIELD SHOULD BE INSURED?

"Well, let's drop the question of premiums for a minute and look at the insurance a farmer would get if his crop failed after he paid his premiums," a member suggests.

"It's high time we did," the man who opened the discussion by saying that crop insurance isn't practical comes in again. "You can't tell me that people wouldn't work this insurance for everything there was in it. A crop isn't like a house or a barn—it's a growing thing, and how it grows depends on how it's cared for. Now suppose a farmer gets his yield insured. There's many a man you and I know who just won't take quite as much trouble if he has insurance as he would if he didn't have it. And there's a few who will just lie down on the job."

"Well, couldn't we get around that," suggests the man who is backing the plan, "by insuring only part of the average yield, so that every insured farmer would have plenty of incentive to get a whole crop if he could?"

"I'm strong for you," a member comes to his support. "I think this is a fine plan. Under this sort of system, the farmers of the country can build up their insurance on what will be a self-maintaining basis after the first few years. And if the Government helps start the matter off, it will certainly be a better use for its money to insure farmers having at least part of a crop every year than to supply seed loans to farmers who are on the rocks because of some disaster. And it would make the farmers feel a lot more independent and self-respecting, too."

WOULD CROP INSURANCE ENCOURAGE ONE-CROP FARMING?

"There's a further point we ought to consider," another group member joins in. "Here the Government has been spending half a billion dollars a year the last few years to help farmers diversify their crops and conserve their soil. Now along comes an insurance scheme and insures some of the big cash crops that are the very ones farmers ought to get away from if we're to have a balanced agriculture. Won't that make production of those crops jump way up?"

"I don't see why it would, with premiums adjusted to risks," comments a man who is sitting across the circle from him. "Take wheat. If you look at where we've had our big expansion of acreage in the past you'll see it's mostly been in high risk areas. Now in those areas the premiums would be fairly high—they might amount to as much as 30 percent of average yields. Then if we followed our friend's suggestion here and insured only a part of the average yield, there wouldn't be very much incentive to expand, would there?"

AREN'T BENEFIT PAYMENTS AND CROP LOANS ENOUGH?

"Well, even if the insurance program and the soil conservation program didn't pull in opposite directions, why do we need to add a new scheme to the plans that are already in force? Haven't we heard a lot about how benefit payments for soil conserving practices are a form of crop insurance, and how crop loans work the same way?" a skeptic's voice is raised. "More than that, I think the whole business is a mistake. Soil conserving practices either don't amount to a row of pins, or they put the farm plant in a position to produce more crops that'll break prices when they come to market. It's the same with crop loans. They're fine when the year in which the loan is made is followed by a year when crops are short. The first A. A. A. corn loan was a big success for that reason. But suppose the year after the loan is made is a good year—you don't have to suppose it; we've already seen it happen to cotton. Then what have you? Either the farmers have to sell a lot of their crop at falling prices to pay back their loans, or the Government is left with more of the commodity on its hands than it knows what to do with."

"Exactly so," the first speaker jumps into the conversation again. "And it isn't as though we hadn't been all through this once before. Why can't people remember the Farm Board and how much that mistake cost everybody? No matter how you do it, by insurance, by crop

loans, or by benefit payments, anything that encourages production, either present or future, is going to break prices and pile up surpluses in the end."

"Now wait," the man who is for crop insurance rises to the challenge. "It seems to me you're lumping a lot of things together. I'm talking about insurance of yields, not price stabilization as tried by the Farm Board. More than that, the reserves which would be built up under the plan I'm proposing would be no more than would be required to meet losses. No grain or other crops would go into the fund except what was paid as premiums, and no grain would come out except what was payable on losses under the terms of the insurance. Under those circumstances, there is no reason for the insurance reserves weighing down prices.

"The way I look at it, they might flatten out the price level in bad years because all the insured farmers would have at least a part of a crop to sell. In good years, I can't see that the reserves would affect prices because very little would be paid out—none except to farmers who had had patches of hard luck while their neighbors prospered."

"The thing I like about the insurance idea," a woman who has been listening intently breaks in, "is that it gives a farmer a chance to carry on business in the midst of risks without coming to the Government for a hand-out all the time. Take the record of seed loans and feed loans for the last ten years—not to mention relief—for people whose wheat failed or whose cotton flooded out or whose corn burnt up. If they'd had insurance, they would have had something to make a new start with on their own, something which they'd arranged for when times were better. That's why I'd rather see the Government spend some of its money providing storage space and administering an insurance plan."

IS AN EVER-NORMAL GRANARY DESIRABLE?

"If the plan works the way he says it will," another woman speaks up, "I can see that as farmers pay in premiums, reserves will be built up, and as farmers whose crops fail receive the part of those reserves to which they have a right, products will be available just when they are most needed. I can see how the plan would work as a sort of Joseph's granary. But I wonder if even more reserves aren't needed than are likely to be built up under the insurance plan. Don't you think consumers need additional safeguards? In the old days when we had a big export market we could draw on supplies intended for export if we ran short at home. But nowadays things are different. I think that in good years the Government should build up additional reserves through commodity loans so as to safeguard consumers when times are bad. If the granary got too full, products could be distributed as relief to people whose incomes are so low that they can't buy enough to eat. And if crops were short, we'd be sure of having at least something laid by."

"That argument won't hold water for a minute," asserts the man who disapproves of Government programs. "The reason we aren't exporting as much as we used to is not because we don't have the products, but because we don't have the markets, isn't it? Well, other countries

are the same way. And you don't get crop failure all over the world in any one year. If we run short here, the cheapest and most logical way to make up the shortage is to import the quantities we need. The other countries will have it if we want it."

"That may be logical enough," the defender of the plan replies, "but it won't work just the same. Look at what happened to consumers in these last droughts. Have you forgotten the howl that came from the farmers the moment we started importing? The imports that came in didn't amount to a hill of beans beside our normal home production, but you'd have thought the whole market was being ruined. And what was the upshot—the consumer paid, as usual. What we need is a plan that will level out supplies from year to year—and in my opinion that would be good for both farmers and consumers."

IS SURPLUS CONTROL NECESSARY WITH AN EVER-NORMAL GRANARY?

"That may be what we need," an earlier speaker comes back into the picture, "but how are we going to get it. Suppose you begin to fill the granary when prices are being depressed because of a big crop. By taking some of the crop off the market you bolster the price. In other words, farmers get a fair price for a crop that is too big, and that if left alone might have brought them so little that they would have reduced their plantings next year. But if the price they get is all right, what's going to make them reduce? Chances are they'll overplant next year, too. That's not leveling out supplies. That's building up an oversize farm plant.

"Well, then, you say, we know none of these plans will work unless we have some way of controlling production, at any rate in extreme cases when it gets way out of line. But how are you going to control production?

"Back in 1932 the problem was fairly simple. Farm prices were so low, that processing taxes to bring them up to parity were large enough to provide substantial benefit payments. Today, prices of a good many commodities

are close to parity—some have even been above, so price-equalizing taxes are out and I can't see the Treasury forking up half a billion a year from general taxes forever. And prices are high enough today to be a big temptation to farmers to expand their acreage rather than cut it down. Last year wheat was sown on more acres than ever before in the history of the country—more even than in war time. How are you going to work your surplus control in times like these? Or are you going to have to wait until prices take a bad break again?"

"We might not have to wait so long at that, at least in the case of some crops," comes a gloomy comment from the outer edge of the circle.

"You're right there," the skeptic assents. "But I don't think that falling prices are as likely to bring surplus control as they are to bring false attempts to bolster the market. Remember, Government programs contain a big portion of politics along with a dash of economics. The woman who was talking about imports spoke of the howl that goes up for higher tariffs whenever a foreign farm product slips into the country. Well, that's not the only time that political pressure is put on. And nine times out of ten it's put on for an immediate purpose that leaves out of account the long-run interests of the very people it's supposed to help."

"Well, there's the whole point," the man who believes crop insurance to be workable is far from being crushed by these predictions. "I think that if farmers get together and realize their long-run interests there'll be fewer of the high-pressure, stop-gap efforts that you're talking about. If farmers foresee what their risks are, and take long-term measures to lessen them, when times are fairly good, the periods when times are bad won't come so often."

What do you think of this discussion of crop insurance?

Do you think crop insurance should cover price and yield, or yield only?

Should insurance be offered only at planting time or throughout the season?

How do you think premiums should be calculated?

Should commodity loans supplement crop insurance?

Does the country need an ever-normal granary?

Is any measure of surplus control desirable with an ever-normal granary?

MORE ABOUT CROP INSURANCE

(Quantity rates may be secured on many of these publications)

INVESTIGATION OF CROP INSURANCE. HEARINGS BEFORE A SELECT COMMITTEE ON INVESTIGATION OF CROP INSURANCE, U. S. SENATE. 67th Congress, 4th Session, April 1923. Superintendent of Documents, Washington, D. C. (Supply exhausted.)

FEDERAL CROP INSURANCE. HEARINGS BEFORE A SPECIAL SUBCOMMITTEE OF THE COMMITTEE ON AGRICULTURE, U. S. HOUSE OF REPRESENTATIVES. 75th Congress, 1st Session, on S. 1397, Serial E. May–June, 1937. Superintendent of Documents, Washington, D. C. $0.15.

FEDERAL CROP INSURANCE. HEARINGS BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON AGRICULTURE AND FORESTRY, U. S. SENATE. 75th Congress, 1st Session, on S. 1397, Feb.–March, 1937. Superintendent of Documents, Washington, D. C. $0.20.

PRESIDENT'S COMMITTEE ON CROP INSURANCE. House Document No. 150, 75th Congress, 1st Session. Superintendent of Documents, Washington, D. C. 1937. $0.05.

CROP INSURANCE FOR WHEAT. A summary of the report of the President's Committee on Crop Insurance as it pertains to wheat. G–75. Agricultural Adjustment Administration, Washington, D. C. 1937. Free.

WHAT ABOUT WHEAT IN 1938? G–72. Agricultural Adjustment Administration, Washington, D. C. 1937. Free.

STATEMENT BY SECRETARY OF AGRICULTURE HENRY A. WALLACE IN OPENING CONFERENCE OF FARM ORGANIZATION LEADERS CALLED TO CONSIDER PLANS FOR AN EVER-NORMAL GRANARY. Feb. 8, 1937. U. S. Department of Agriculture, Washington, D. C. Free.

THE FARMER'S PROBLEMS. Building America, 425 W. 123rd St., New York City. 1937. $0.30.

FARM PROBLEMS AND POLICIES. Public Affairs Committee, 8 W. 40th St., New York City. 1938. $0.10. (This pamphlet summarizes "Three Years of the Agricultural Adjustment Administration," by E. G. Nourse, J. S. Davis, and J. D. Black, The Brookings Institution, Washington, D. C. 1937. $3.50, which discusses crop insurance and the ever-normal granary on pp. 171–185.)

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